

CONJONCTURE FLASH | JANUARY 2013

STATEC

Institut national de la statistique
et des études économiques

Monthly publication of the state of the Luxembourg economy

GDP falls slightly in the 3rd quarter

Economic activity in Luxembourg fell in most sectors during the 3rd quarter and continues to suffer from the sluggishness in domestic demand. The international climate is also expected to remain unfavourable in the 4th quarter.

Downward trend in most sectors

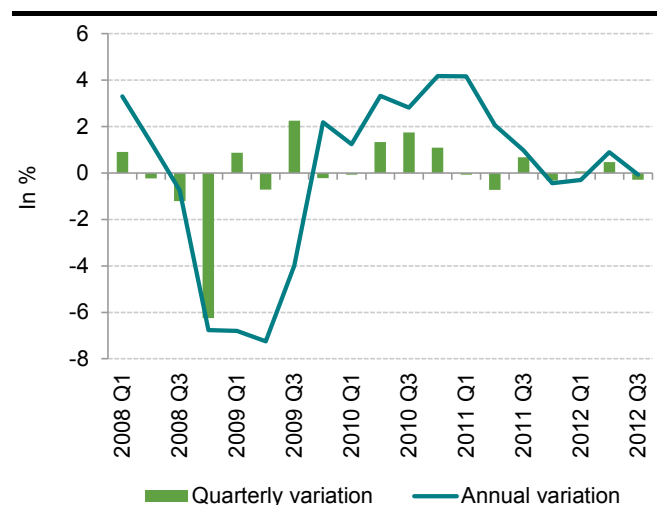
Luxembourg GDP fell 0.3% over one quarter in the 3rd quarter of 2012 (down 0.1% over one year). There was little change on previous quarters with regard to the previous version of the accounts – published in October 2012 – apart from a very minor upward revision in the 2nd quarter results (from 0.4% to 0.5%).

Most economic sectors were affected by this downturn in the 3rd quarter. Only services, traditionally less exposed to economic downturns (administration, education, healthcare and social welfare, and social and personal services), escaped this trend, although these rose less in the 3rd quarter (up 0.4% against a rise of about 1.0% in each of the two previous quarters). Added value in the financial sector slipped 0.5%, but as this bounced back significantly in the 2nd quarter (up 3.0%), the drop appears limited and does not amount to a true downturn. More worryingly, added value in business services fell for the 2nd quarter in a row (down 1.0%, after a fall of 0.5% in Q2) – a relatively alarming signal for employment in the next few quarters in a sector that saw large-scale recruitment in 2011 and early 2012. The trade, transport and communication sectors continued on the downward trend that started in late 2011, with added value falling another 0.7% in Q3 2012. Finally, in the secondary sector – manufacturing and construction – the third quarter was marked by a further drop in added value albeit to a lesser extent than in the 2nd quarter, particularly in manufacturing, which benefited from a recovery in iron and steel production (see Conjoncture Flash for December 2012).

Reduced domestic demand

On the demand side, the main contributor to the downturn came from investment (gross fixed capital formation), which fell for the 3rd quarter in a row, reflecting the lack of growth prospects among companies. Domestic demand is also suffering from sluggish household consumption which, after

GDP in volume



Source: STATEC

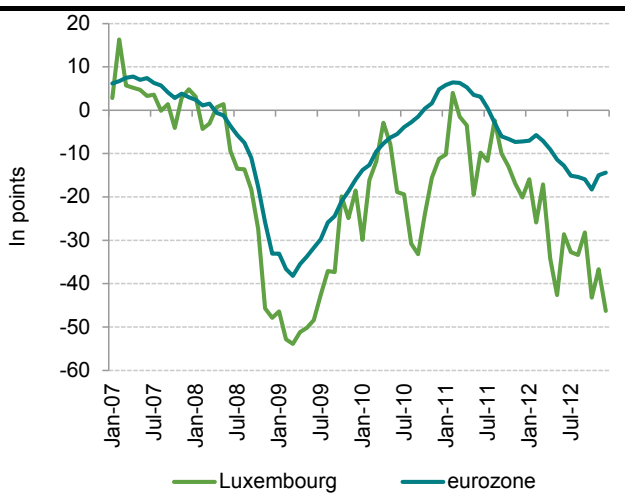
falling in the 2nd quarter, contributed nothing in the 3rd quarter. On the other hand, external demand (for Luxembourg exports) boosted GDP growth, mainly in trade in goods (the results are less positive for trade in services, particularly non-financial services).

In terms of external demand, the outlook for 4th quarter results is not encouraging. While leading indicators for the eurozone have risen since last November (a trend that is yet to be confirmed pending the publication of January results), they remain low in absolute terms, pointing to an easing in the downward trend rather than an actual recovery. In Germany in particular, Luxembourg's main export market for both goods and services, the Federal Statistical Office of Germany has just published its initial estimates for 4th quarter GDP, which show a significant downturn of 0.5%.

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Manufacturing

Confidence indicator for manufacturing



Source: Eurostat

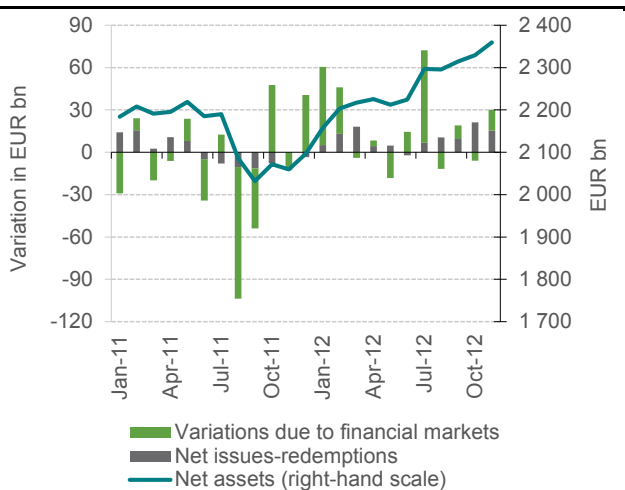
No rally expected in the 4th quarter

Industrial output in Luxembourg fell about 2% environ in October (down 4.3% over one year), mainly due to output of intermediate goods (down 4.2% over one month, with a drop of almost 9% for iron and steel production alone) while other sectors held up better (capital goods up 5.0%, consumer goods up 1.3% and energy output and distribution up 4.6%).

The outlook for the last two months of 2012 is rather gloomy. The December economic survey showed that manufacturers' opinions were still trending downward and at historically low confidence levels, incompatible with a clear recovery in output. Manufacturing confidence in the eurozone is also below its historical average, but it seems to have bottomed out since November, with less pessimistic results from Germany (although these are negative as they are expected to materialise in a drop in German output for the 4th quarter of 2012 as a whole).

Financial sector

Undertakings for Collective Investment



Source: CSSF

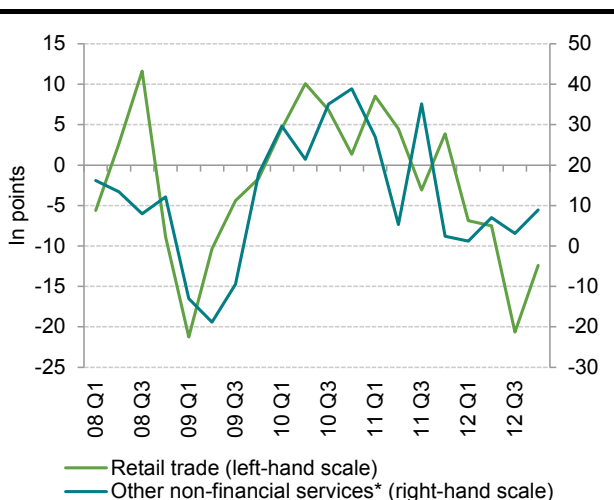
Sustained growth in UCIs

At the end of 2012, undertakings for collective investment continued on the favourable trend seen in the 3rd quarter. Figures available up to November indicate net assets of EUR 2,360 billion (up about 15% over one year). The continued growth in October and November is partly due to revaluation adjustments linked to financial market trends, but these only account for one third of the growth. Most of the rise is due to new inflows of capital (issues less redemptions) which reached almost EUR 20 billion on average over these two months (compared to barely EUR 10 billion on average over the first 9 months). In terms of fund type, bond funds contributed most to the increase in net assets in October and November (about ¾), in contrast to a pause in August and September. Equity funds for their part remained on the upward trend that started in June.

December – a rather satisfactory month on the stock markets – should allow UCIs to end the year on a positive note and these may well exceed the threshold of EUR 2,400 billion in terms of net assets in the near future.

Non-financial services

Confidence indicators in non-financial services



Sources: Chamber of Commerce, STATEC

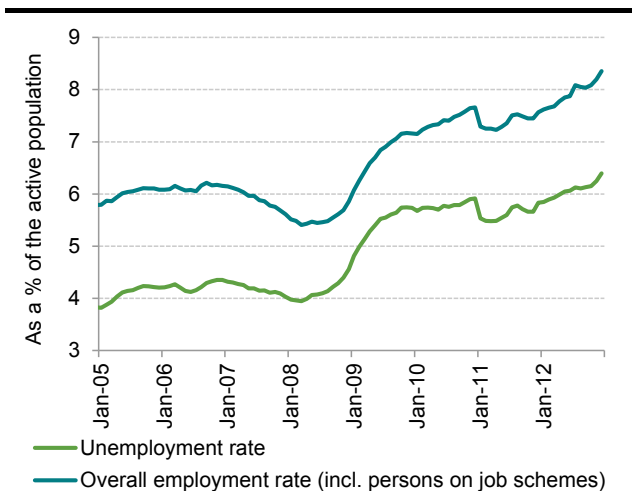
*Hotel & catering, transport and communications, real estate and business services

Businesses a little more confident

The results of economic surveys in non-financial services show a slight improvement over the 4th quarter. The situation is far from rosy, however, as confidence indicators remain stuck at historically low levels. Nevertheless, there is hope of some reversal in the downward trend – particularly in the retail trade, where prospects declined significantly in the first three quarters of 2012. The upswing in the consumer confidence indicator in Luxembourg since November – although as yet very moderate – is a signal that is heading in the same direction. There are as yet not enough data available for other non-financial services to underpin the recovery seen in the confidence indicator in the 4th quarter. All the same, based on provisional turnover data, the October results appear satisfactory for hotel & catering businesses and companies providing services mainly to businesses.

Labour market

Unemployment rate



Sources: ADEM, STATEC (seasonally adjusted figures)

Unemployment rises considerably in late 2012

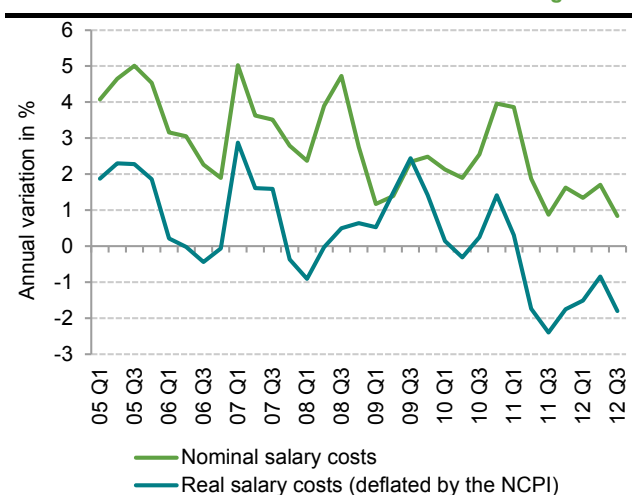
After stabilising over the summer months (June to September), seasonally adjusted unemployment started to rise again strongly in the last quarter of 2012, pushing the unemployment rate up to 6.4% in December compared to 6.1% in September.

There were almost 17,000 jobseekers in December 2012, 13% more than a year ago (up 2.7% on the previous month based on seasonally adjusted figures). Taking into account those in job schemes (just under 5,000), the overall unemployment rate was 8.4% in December compared to 8.0% in September.

In 2012, the official unemployment rate averaged 6.1%, compared to 5.6% in 2011, while the overall rate (including those on job schemes) was at 7.9% compared to 7.4% a year ago. Unemployment therefore continues to rise, a trend that is set to continue in 2013, when the rate is expected to reach 6.5% over the year as a whole.

Wages

Nominal and real wage costs



Source: STATEC

Real wage costs continue to fall

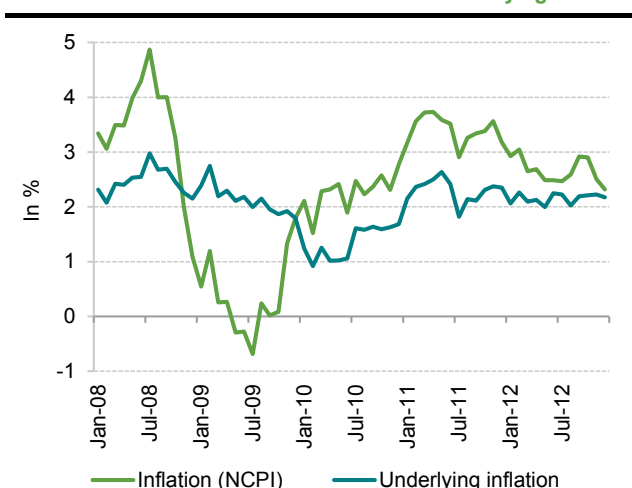
Nominal wage costs per capita rose just 0.8% over one year in the third quarter of 2012. Taking into account price trends (NCPI – national consumer price index), which rose 2.6% over the same period, real wage costs dropped 1.8%.

The two sectors worst hit by the crisis, manufacturing and the financial sector, even saw nominal wage costs fall in Q3 2012 (down 1.3% and 0.6% over one year respectively). Nominal wages in other sectors, especially in business services (up 1.9%) and services less exposed to economic downturns, such as public administration, education, healthcare and social welfare (up 1.6%), continued to grow, albeit at a slower pace than inflation.

Thus, despite the rise due to automatic index-linking in October (2.5%), real wages are falling across the board for all economic sectors.

Inflation

General and underlying inflation



Source: STATEC

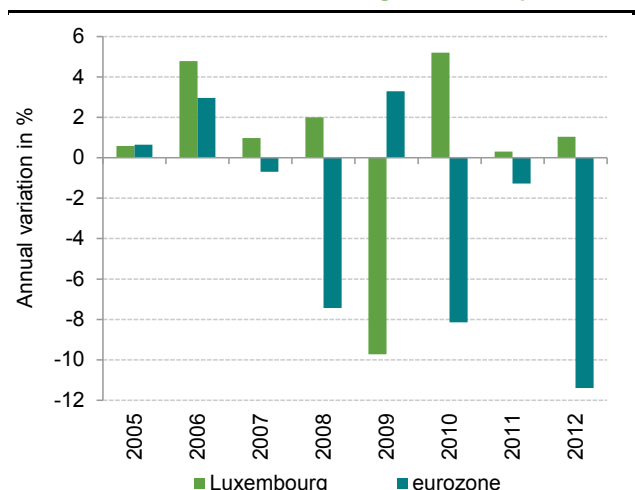
Prices rose 2.7% in 2012

In 2012, consumer prices rose by an average of 2.7% over one year, after rising 3.4% in 2011. This slowdown in inflation is partly due to exceptional events, such as the 2011 healthcare reform, but mostly to a lesser increase in oil prices (up 8.5% in 2012 compared to 16.8% in 2011).

With inflation at 2.6% in the 4th quarter of 2012 (NCPI), price rises in the Grand Duchy of Luxembourg remain high compared to that in other European countries (2.3% in the eurozone, 2.0% in Germany, 1.7% in France and 2.3% in Belgium). For 2013, STATEC expects prices to rise 1.9%, mainly due to stabilising oil prices. Underlying inflation is set to remain relatively high (2.1% compared to 2.2% in 2012) because despite a difficult economic situation, some phenomena will continue to exert inflationary pressure. These include a rise in public transport fares (1 January 2013), price adjustments in urban car parks in Luxembourg (1 February) and a further rise in childcare costs for high-income households coming on top of the hike in September 2012 (1 January).

Consumption

New registrations of private cars



Sources: STATEC, ACEA

Registrations rally temporarily

Private car registrations in Luxembourg grew 1.0% in 2012, running counter to the trend in most European countries, where this indicator points to a marked crisis in terms of household consumption. This positive result for Luxembourg is linked to a particularly buoyant 4th quarter for new car registrations – after falling another 1.3% on 2011 at the end of the 3rd quarter – probably due to a rush to buy before the end of the CAR-e bonus scheme (EUR 750 or EUR 1,500 depending on vehicle type) on 1 January 2013. A negative impact can therefore be expected in registrations in early 2013.

Across the border, new car registrations in 2012 fell 3% in Germany, 14% in France and 15% in Belgium.

Trend chart

	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
Activity											
Industrial output per working day, in volume	-7.4	-7.9	-0.9	-5.9	-10.3	-1.8	-4.3	...	...	-5.3	-2.4
Construction output per working day, in volume	-10.0	-13.5	7.5	-5.1	6.1	-4.1	-0.4	...	...	-0.5	-4.1
Turnover by volume of total retail trade	-3.7	-0.6	2.4	0.7	3.1	-1.0	1.1	...	...	1.0	0.5
Prices, wages											
Consumer price index (NCPI)	2.7	2.5	2.5	2.5	2.6	2.9	2.9	2.5	2.3	2.6	3.4
Underlying inflation	2.1	2.0	2.2	2.2	2.0	2.2	2.2	2.2	2.2	2.2	2.3
Oil product index	9.0	7.9	5.2	5.5	8.8	11.6	10.8	5.4	3.9	6.7	15.6
Industrial producer price index	2.5	3.1	4.5	2.6	2.7	1.6	0.0	-0.4	...	0.4	9.3
Construction price index ¹	3.0	3.0	3.0	2.9	2.9	2.9	...	...	...	2.9	2.7
Average wage bill, per person (National accounts)	1.7	1.7	1.7	0.8	0.8	0.8	...	...	...	0.8	0.9
Foreign trade											
Exports of goods (volume)	-11.3	-14.5	1.0	-0.6	-8.8	-14.7	0.4	...	...	-8.0	4.0
Imports of goods (volume)	-3.1	5.9	-3.2	-4.5	-28.6	1.8	-12.4	...	...	-13.5	22.5
Employment, unemployment											
Domestic number of employees	2.0	2.3	2.3	2.0	2.3	2.1	2.0	2.1	1.9	2.0	3.0
National employment	2.0	2.2	2.3	2.3	2.4	2.0	1.9	2.2	2.0	2.1	2.6
Unemployment rate (% of working population, seas. adj.)	6.0	6.0	6.1	6.1	6.1	6.1	6.2	6.2	6.4	6.3	5.7

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Eurozone- Growth in volume of GDP (European Commission)	0.2	0.1	-0.3	0.0	-0.2	-0.1
Luxembourg - Growth in volume of GDP (STATEC)	-0.7	0.7	-0.3	0.1	0.5	-0.3
	Annual variation in %					
	2008	2009	2010	2011	Forecast 2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	-0.7	-4.1	2.9	1.7	0.5	1.0
PIB en valeur 2011: 42 625 Mio EUR						
Minimum monthly salary (since 01/10/2013): EUR 1 874.19						
Current account balance (2012 Q3): EUR 545 million						
Resident population (01/01/2012): 524 853						
Consumer price index December) - base January 1 st 1948: 811.16						
Half-yearly average of the index linked to base as at January 1 st 1948: 809.39						
Estimated deadline for next salary indexation: 4 th term 2013						

Central office for statistics and economic data

Tel: 247-84219

info@statec.etat.lu

www.statistiques.lu

13, rue Erasme

B.P. 304

L-2013 Luxembourg

For further information:

Bastien Larue

Tel. 247-84339

E-mail: Bastien.Larue@statec.etat.lu

Pascale Armstrong

Tel. 247-84234

E-mail: Pascale.Armstrong-Pax@statec.etat.lu